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SIXTY-FOURTH ANNUAL REPORT

THE CROW'S NEST PASS COAL COMPANY,
LIMITED

FERNIE, BRITISH COLUMBIA

ESTABLISHED 1897



FOR THE YEAR ENDING DECEMBER 31, 1960



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SIXTY-FOURTH ANNUAL REPORT

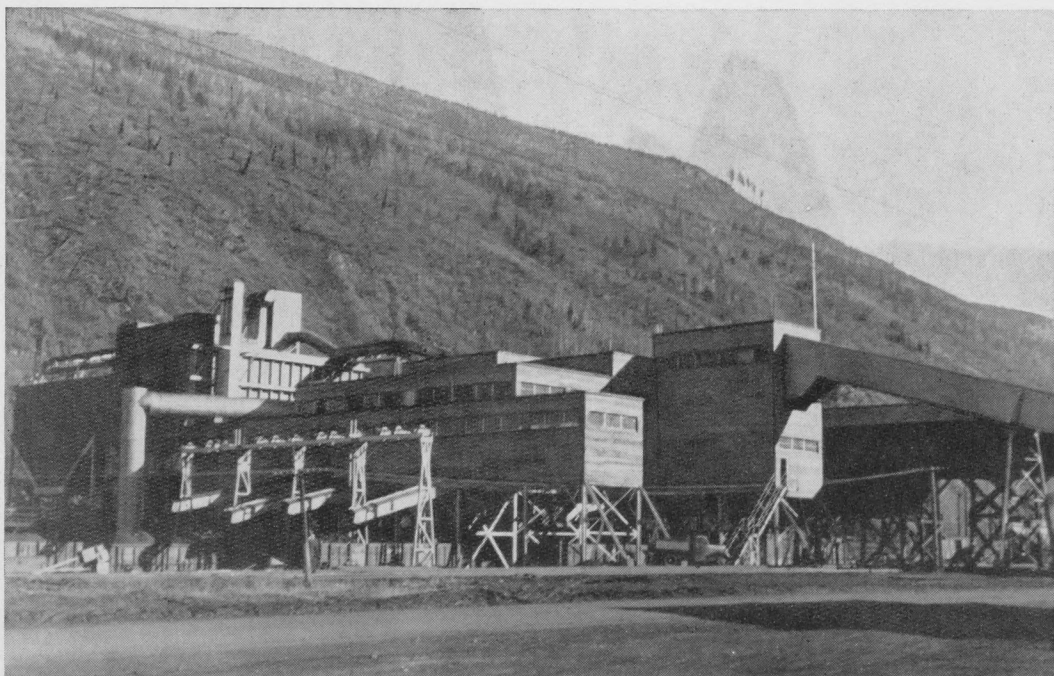
THE CROW'S NEST PASS COAL COMPANY, LIMITED
FERNIE, BRITISH COLUMBIA

(Incorporated 1897)



HEAD OFFICE, FERNIE, B.C.

YEAR 1960



MICHEL COAL PREPARATION PLANT

BOARD OF DIRECTORS

T. G. Ewart	Thomas F. Gleed	C. H. Kreienbaum
C. A. Eckart	F. D. Pratt	*D. M. Mitchell
	C. O. Jenks	

EXECUTIVE COMMITTEE

Thomas F. Gleed, *Chairman*

T. G. Ewart	F. D. Pratt
*D. M. Mitchell	C. A. Eckart

OFFICERS

T. G. Ewart.....	President
Thomas F. Gleed.....	First Vice-President
F. D. Pratt.....	Second Vice-President
W. R. Prentice.....	Secretary
*D. M. Mitchell.....	Assistant Secretary
J. F. Cleeve.....	Treasurer
J. Littler.....	General Superintendent
Harvey, Morrison & Co.....	Auditors

TRANSFER AGENTS

The Toronto General Trusts Corporation, Toronto, Ont.
Bankers Trust Company, New York, N.Y.

REGISTRARS

National Trust Company, Limited, Toronto, Ont.
The Hanover Bank, New York, N.Y.

*Resigned August 31st, 1960

REPORT OF THE PRESIDENT

Fernie, British Columbia, March 31, 1961

To the Shareholders of The Crow's Nest Pass Coal Company, Limited:

We submit herewith the sixty-fourth Annual Report of your Company for the year ended December 31st, 1960, together with Balance Sheet and Statements of Income and Surplus certified by your Auditors, Harvey, Morrison & Co.

INCOME

Net profit after provision for taxes and depreciation was \$615,092 and it should be noted that your accounts this year are consolidated accounts of The Crow's Nest Pass Coal Company, Limited and The Crow's Nest Pass Oil and Gas Company Limited. This is an increase of \$179,066 over the previous year.

DIVIDENDS

Distribution to shareholders during the year amounted to \$372,708, which is equivalent to 60 cents per share on the \$10 par value shares of the Company. A further distribution amounting to \$93,177 which is equivalent to 15 cents per share was paid on January 23, 1961. Consolidated net earnings during the year 1960 were equivalent to 99 cents per share on the \$10 par value shares of the Company. We are informed that, under the Income Tax Act, shareholders residing in Canada may not deduct any percentage of the dividends declared and paid in 1960 on account of depletion, in completing their income tax returns.

INVESTMENTS

Your Company, as of the close of business on December 31, 1960, had investments of \$958,769 in Dominion of Canada bonds at varying maturity dates.

Shares of other companies as shown on the Balance Sheet consist of 30,000 shares of the common stock of The Calgary & Edmonton Corporation Limited and 60,000 shares of the common stock of The Granby Mining Company Limited.

During the past year your Directors reviewed the Company's policy on the acquisition of oil and gas reserves. In view of the depressed prices at which Canadian oil and gas securities were selling, it appeared that monies which otherwise might have been spent directly in drilling activities could be more profitably utilized by investing in the securities of companies already possessing substantial developed reserves, which were available at prices reflecting lower acquisition costs for reserves than those which the Company itself might hope to achieve. Your Directors therefore allocated approximately the amount of funds which might otherwise have been spent directly in oil and gas development, and acquired 30,000 shares of the common stock of The Calgary & Edmonton Corporation Limited.

The Calgary & Edmonton Corporation Limited owns petroleum, natural gas and mineral rights underlying 1,142,109 acres in southwestern Alberta, and had as of December 31, 1959, participating and/or royalty interests in 288 producing oil wells, 41 producing gas wells and 15 capped gas wells in Alberta. The company is in a strong financial position and has demonstrated a pattern of growth in earnings. It appears to be a sound medium through which to participate in the anticipated long-term growth of the oil and gas industry in western Canada.

Your Company derives its income from ownership and development of natural resources, which have heretofore consisted primarily of coal, timber, and petroleum and natural gas. To lend some further diversity to its activities, and in order to participate in metal mining development, your Directors authorized the purchase of 60,000 shares of the common stock of The Granby Mining Company Limited, and thus became the largest stockholder of that company.

Granby is equipped with a suitable organization and sufficient resources to engage in an active exploration program in western Canada, and has some interesting prospects under consideration. The situation has a favorable long range potential, commensurate with any degree of risk involved.

CAPITAL EXPENDITURES

The net capital expenditure made by this Company and its wholly owned subsidiary, The Crow's Nest Pass Oil and Gas Company Limited during the year amounted to \$300,357. Expenditures were incurred primarily for the completion of the Company Saw Mill and for the provision of equipment for the operations of the Company.

PRODUCTION

Coal mined amounted to 672,705 tons as compared with 517,245 tons in 1959. Coke produced amounted to 131,422 tons compared with 134,134 tons in 1959.

MARKETS

The Company's sales of coal during the year increased satisfactorily, primarily due to the establishment of a market in Japan for its high quality coking coal. It is gratifying to advise you that sales arrangements have been completed until March 31, 1962 for export to Japan at existing levels. The Company's other markets for coal continue at recent levels, and a satisfactory year can be looked for in terms of sales. Your Company's sales of coke were adversely affected during the past year through labor disputes at customers' plants. As a result of the termination of these disputes and also due to the establishment of a steel industry in an adjacent area, an increase is expected in the market for coke this year. The market for lumber in common with the industry was disappointing, but there are preliminary indications that this will improve moderately in the present year.

EMPLOYEES

The Wage Agreement between this Company and its employees terminated on July 3, 1960. A new Agreement has been signed for a two-year period, whereby wages of employees were increased 5 cents per hour on July 3, 1960 and will increase by a further 5 cents per hour on July 3, 1961.

SUBSIDIARIES

The accounts of two subsidiaries are not included in the consolidated statement of accounts, i.e., the Morrissey, Fernie & Michel Railway Company and the Crow's Nest Pass Electric Light & Power Company Limited. According to best information and appraisal available, as at December 31, 1960, the investment in these subsidiaries as reflected on the parent company's books does not exceed the net worth of their assets.

OIL DEPARTMENT

Attached to the financial statement is a statistical summary of the oil and gas operations of this Company and its wholly owned subsidiary. This statement also shows annual income from oil and gas operations from inception to 1960. The Company did not participate in the acquisition of proven oil or gas lands during the year, as it was felt that reserves could be acquired more satisfactorily and economically by means of investment rather than by direct participation.

During the year 1960 a decision was received from the Court of Appeal of British Columbia with respect to the title to the oil and gas rights on Company lands. The decision was adverse to this Company. The case is now being appealed to the Supreme Court of Canada, and it is anticipated that a hearing will be held this spring.

OPTION—COLUMBIA IRON MINING COMPANY

In accordance with the authority granted by the shareholders at their annual meeting April 26, 1960, the Company completed an Option Agreement with Columbia Iron Mining Company (a wholly owned subsidiary of the United States Steel Corporation). In compliance with the terms of that option, Columbia Iron Mining Company undertook an active geological and exploration program on Company lands during this past year. Your Company has been advised that this geological and exploration work will be actively continued during the present year.

GENERAL

Your Company is very conscious of the necessity for finding means to reduce costs of production and to improve methods of coal preparation. Studies have been made by your Engineering and Mining personnel, and visits undertaken to various operations in Germany, France, Great Britain and the United States. After careful consideration, an area at Michel Colliery has been designated for the introduction of new mechanized methods of operation. Your Management expects that this will result in a reduction of costs in this area, and it is hoped that the practical experience and application of these methods will permit an extension of the same methods to further areas of the Company's mining operations.

Your Company has also approved an investment of approximately \$700,000 for additional coal preparation facilities at Michel Colliery to safeguard the Company's markets and customer requirements.

SEMI-ANNUAL REPORT

Your Directors have authorized the issuance of a semi-annual condensed Statement of Accounts to shareholders, which will reflect the Company's financial position as of June 30th in each year.

CONCLUSION

All plants and equipment are being well maintained and are in excellent condition.

By order of the Board of Directors,

T. G. EWART, *President.*

THE CROW'S NEST PASS CO.

(INCORPORATED UNDER THE LAWS OF CANADA)

CONSOLIDATED BALANCE SHEET

ASSETS

Current:

Cash.....	\$ 551,423	
Government of Canada bonds at cost (quoted market value \$893,846).....	958,769	
Accounts receivable.....	758,679	
Accrued interest receivable.....	7,431	
Inventories valued at the lower of cost or market.....	920,681	
Prepaid expenses.....	61,485	
		\$3,258,468

Investments:

Shares of wholly-owned subsidiaries not consolidated at cost less amounts written off.....	\$ 154,394	
Shares of other companies at cost (quoted market value \$825,000)....	897,596	
		1,051,990

Fixed—At Cost (Notes 2 and 4)

Mines, real estate, plant and equipment less accumulated depreciation of \$10,846,545.....	\$3,424,588	
Petroleum and natural gas interests—		
Acquisition cost of properties.....	1,252,925	
Development costs, \$2,188,001, less amounts written off.....	1	
Production equipment less accumulated depreciation of \$385,178.....	748,029	
		5,425,543

Other:

Mortgages receivable.....	\$ 23,908	
Refundable deposits.....	108,068	
Deferred expenses.....	13,675	
		145,651
		<u>\$9,881,652</u>

S COAL COMPANY, LIMITED

DER THE LAWS OF CANADA)

CE SHEET, DECEMBER 31, 1960

LIABILITIES

Current:

Accounts payable and accrued charges.....	\$ 331,409
Provincial Government taxes.....	1,286
Due to wholly-owned subsidiary.....	13,608
Income taxes payable.....	101,528
Dividend payable—January 23, 1961.....	93,177
	<u>\$ 541,008</u>
<i>Accumulated Tax Reductions applicable to future years.....</i>	<i>139,569</i>

Capital (Note 3):

Authorized—1,000,000 shares of \$10 each par value	
Issued — 621,180 shares.....	\$6,212,667

Surplus:

Allocated for emergency and capital expenditures.....	1,200,000
Earned surplus (Statement 2).....	<u>1,788,408</u>
	9,201,075

On behalf of the Board:

THOMAS F. GLEED, *Director.*

F. D. PRATT, *Director.*

\$9,881,652

THE CROW'S NEST PASS COAL COMPANY, LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

For the year ended December 31, 1960

Operating profit before the following deductions.....	\$1,623,141
Executive Officers' salaries.....	\$ 74,600
Counsel and legal fees.....	13,256
Directors' fees.....	4,000
Allowance for depreciation.....	521,609
Drilling and development expenditures written off.....	35,035
	<hr/> 648,500
	<hr/> \$ 974,641
Interest and other income.....	53,448
Profit before income taxes.....	<hr/> \$1,028,089
Income taxes.....	412,997
Net profit for the year.....	<hr/> \$ 615,092
Earned surplus, beginning of year.....	1,639,201
	<hr/> \$2,254,293
Less dividends paid or payable (75c per share).....	465,885
Earned surplus, end of year.....	<hr/> <hr/> \$1,788,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1960

1. **PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, The Crow's Nest Pass Oil and Gas Company Limited, but do not include the accounts of two other wholly-owned subsidiaries, The Crow's Nest Pass Electric Light & Power Company Limited and Morrissey, Fernie and Michel Railway Company.

2. **ACCOUNTING PRACTICES:** Depreciation of fixed assets is provided on the reducing balance method at rates designed to amortize the cost of these assets over their estimated useful life. Based on the Company's present estimate of recoverable reserves of coal, a charge for depletion would be immaterial in amount and accordingly no provision for depletion of coal properties is included in the accounts.

During the development stage of their oil properties, the companies have followed the practice of charging the drilling costs of productive wells against income as incurred and no provision has been made for depletion of producing oil properties. Effective January 1, 1961, at which date the development of oil properties was substantially completed, the companies propose providing for depletion of productive oil properties on the unit of production method based on estimated reserves of oil.

3. **CAPITAL STOCK:** 20,000 shares of the Company's capital stock have been reserved under a stock option plan. At December 31, 1960 options to purchase 5,000 shares at \$15 per share and 4,500 shares at \$16.25 per share had been granted under the plan to executive officers, exercisable in annual instalments on a cumulative basis while in the employ of the company.

4. **COAL PROPERTIES:** Columbia Iron Mining Company, a subsidiary of United States Steel Corporation, has been granted an option exercisable to May 1, 1964 to purchase either a substantial portion of the Company's coal lands for a net consideration of \$10,000,000 or all of the Company's coal lands and properties for a net consideration of \$17,000,000. In the event that Columbia exercises the latter privilege, the Company would cease its coal mining operations and Columbia covenants to continue to supply the Company's existing customers for a period of ten years.

AUDITORS' REPORT

To the Shareholders of

The Crow's Nest Pass Coal Company, Limited.

We have examined the consolidated balance sheet of The Crow's Nest Pass Coal Company, Limited and its wholly-owned subsidiary company, The Crow's Nest Pass Oil and Gas Company, Limited, as at December 31, 1960 and the related consolidated statement of profit and loss and earned surplus for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As indicated in Note 2 to the financial statements, drilling costs of productive wells have been charged to income as incurred and no provision has been made for depletion of producing oil properties.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of The Crow's Nest Pass Coal Company, Limited and its wholly-owned subsidiary company at December 31, 1960 and the results of their operations for the year then ended, in conformity, except as noted in the preceding paragraph, with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 118 of the Companies Act (Canada) we report that no portion of the profits of the unconsolidated subsidiary companies is included in the accompanying statement of profit and loss and earned surplus.

HARVEY, MORRISON & CO.

Chartered Accountants.

Calgary, Alberta, March 7, 1961.

THE CROW'S NEST PASS COAL COMPANY, LIMITED
and
THE CROW'S NEST PASS OIL AND GAS COMPANY, LIMITED
(Wholly-Owned Subsidiary)

STATISTICAL SUMMARY OF OIL AND GAS OPERATIONS FROM INCEPTION TO 31st DECEMBER, 1960

	The Crow's Nest Pass Coal Company Limited	The Crow's Nest Pass Oil & Gas Company Limited	Total
We have expended to December 31, 1960			
On acquisition of oil and gas properties.....	\$1,239,500	\$ 13,425	\$1,252,925
On drilling and development.....	1,441,744	746,257	2,188,001
On plant and equipment.....	800,929	332,278	1,133,207
	<u>\$3,482,173</u>	<u>\$1,091,960</u>	<u>\$4,574,133</u>
Balance of plant and equipment available for Capital Cost allowance under the Income Tax Act.....	\$ 465,690	\$ 116,286	\$ 581,976
Balance of drilling and development available for write-off under the Income Tax Act.....	nil	nil	nil
For this expenditure we have acquired net percentage interests as shown:			
1. Pembina-Buck Lake Area —187 wells..	2.953 %	3.375 %	6.328 %
2. Pembina-Buck Lake Area — 5 wells..	1.969 %	2.250 %	4.219 %
3. Section 13 Buck Creek Unit — 8 wells..	10. %	.....	10. %
4. North Pembina Cardium Unit No. 1—563 wells..	.14502%	.....	.14502%
5. Burbank Joffre Area — 19 wells..	20. %	.....	20. %
— 1 well..	15. %	.....	15. %
6. Nevis Gas Unit — 8 wells..	.6587 %	.....	.6587 %
7. Stettler Unit — 75 wells..	.....	.26737%	.26737%
8. Swan Hills — 6 wells..	10. %	.....	10. %
9. Various holdings of undeveloped and non-pro- ducing properties.....	.....	.....	.....
	bbls.	bbls.	bbls.
Our original drilled reserve (as estimated by our associates in oil operations) were.....	4,642,577	3,250,818	7,893,395
Recovered to date.....	949,967	640,935	1,590,902
Balance of reserves at 31st December, 1960.....	<u>3,692,610</u>	<u>2,609,883</u>	<u>6,302,493</u>
Our Net Income after deduction of operating expenses but before write-off of drilling and development and depreciation amounted to:			
1955 and prior.....	\$ 132,546	\$ 165,338	\$ 297,884
1956.....	321,036	290,031	611,067
1957.....	348,536	219,168	567,704
1958.....	312,995	166,221	479,216
1959.....	294,863	163,901	458,764
1960.....	319,487	146,415	465,902
	<u>\$1,729,463</u>	<u>\$1,151,074</u>	<u>\$2,880,537</u>

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